

**Advisory**

# **Evolution of Local Fund Agents Approaches for Country-Level Monitoring**

GF-OIG-22-016  
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Geneva, Switzerland



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# Executive Summary

## Evolution of LFA Approaches for Country-Level Monitoring

Local Fund Agents (LFAs) are fundamental to the Global Fund operating model, representing the key provider of monitoring and oversight of in-country implementer activities for the Secretariat. Since the Global Fund does not maintain country offices, LFAs act as its “eyes and ears” on the ground. LFAs provide essential country information and insights to Country Teams to better manage implementation risks, facilitate grant management activities as well as support effective decision-making.

The LFA model is a unique mechanism that has served the organization well over time, proving especially crucial during the pandemic since most travel was prohibited for the Global Fund Country Teams. While the LFA model is considered effective and value-adding, feedback from several Secretariat teams in recent years and various OIG and other reviews, signaled that there are opportunities to further evolve LFA services and their approach.

The OIG’s conclusion from its assessment is that the current LFA approach is overall fit-for-purpose, with some key strengths and improvement opportunities identified. There are in particular three key areas for improvement to consider for the next funding cycle.



### 1. Further optimize the use of LFA services in select areas, both in the design and implementation of Global Fund supported programs

The assessment identified opportunities to further improve LFA services in areas considered value-adding and currently under-used by the Secretariat across relevant portfolios.

**Cross-cutting support and monitoring** (services applicable to all portfolios independent of the grant structure)

- Insights on some critical aspects of grant design at the grant-making stage are provided inconsistently
- Improvement opportunities exist to better leverage existing tools at the grant-making stage (Capacity Assessment Tool and Implementation Readiness Assessment Tool)
- Preliminary assessment of internal control mechanisms are not consistently performed
- Leverage on LFAs’ risk assessment insights to complement Global Fund’s own assessment through direct country experience is limited

**Enabling grant activities** (risk-based reviews focused on high investment and impact categories)

- LFA reviews for key investment areas (e.g., procurement processes, health equipment, trainings) are sometimes retrospective with a narrow scope
- Scope of supply chain (SC) reviews is sometimes focused on “static” aspects like on-shelf stock availability, excluding distribution flows and data triangulation
- Positioning of LFA procurement & supply chain management (PSM) reviews and their complementarity with the newly introduced Supply Chain & Health Services Spot Checks is unclear.

**Programmatic thematic clusters** (tailored programmatic support / monitoring for thematic clusters such as HIV prevention, malaria case management and TB detection)

OIG analysis noted some areas where LFA services could be further strengthened. Some examples include community engagement across the three diseases, integration of HIV/TB services, and aspects of HIV prevention, particularly for key populations.

Work is undergoing to refine quality assurance standards in this area.

### Recommendations

**Cross-cutting support and enabling grant activities.** Different levers can be considered to be selectively applied to the areas identified, from improving business practices and building capacity (e.g., trainings, improving support from second-line functions) to more ‘codified’ changes to procedural frameworks and policies (e.g., identification of thresholds or criteria to harmonize use of LFA services, modifications of Operational Policies and formulation of Terms of Reference).

**Programmatic thematic clusters.** The Secretariat (TAP) is currently defining high-level “Program Essentials” for programmatic themes, including guidelines for quality assurance<sup>1</sup>. This would be the conceptual basis to determine the scope of relevant and comprehensive programmatic reviews to assign to LFAs or other providers.

**Focused portfolios.** Global Fund support to focused portfolios follows a different model that the Secretariat is currently reviewing for optimization. Once complete, adjustments to the level and focus of monitoring requested to LFAs should be made accordingly.

<sup>1</sup> “Critical approaches” for RSSH are also being developed.



# Executive Summary

## Evolution of LFA Approaches for Country-Level Monitoring



### 2. Streamline the approach to LFA's financial monitoring by leveraging the work of other providers in line with risk appetite

The assessment showed that LFAs appropriately cover financial and fiduciary risk areas. However, some aspects could benefit from increased focus and investment, such as robustness of internal controls and Value for Money reviews.

The current very granular “line by line” verification approach (regardless of materiality) may not offer the best value to the Global Fund. This refers in particular to PU/PUDR<sup>2</sup> reviews that represent ~26% of LFA spend. The existing procedural framework already fosters a differentiated methodology (i.e., based on portfolio categorization, assessed level of risk, disease burden, materiality, grant context, and available Global Fund resources). But the analysis highlighted a tendency to request that LFAs maintain a highly granular approach across the whole spectrum of expenditures, regardless of materiality and without applying a tailored approach.

Finally, in the current operating model, different actors provide monitoring activities at the country level. Their roles could be further clarified, for example, referring to the complementarity and interplay between the role of Fiscal Agents (FA), External Auditors (EA), PR's internal auditors and LFAs.

#### Recommendations

- Enhance and ensure consistent application of a “risk and control” based approach to financial verification, with periodic assessments of key controls and the control environment leading to a tailored financial review
- Ensure consistent implementation of existing guidelines on a “differentiated approach” to financial verification based on risk and investment
- Strengthen the synergies and complementarity between country-led and Global Fund-sponsored monitoring, performed by various service providers. In particular, further clarify the roles noted above.



### 3. Strengthen and harmonize the maturity of Country Teams in risk management and further clarify the role of second-line functions to better leverage LFA services

Flexibility is one of the main features and advantages of the current LFA model. Country Teams can direct LFAs as needed to focus on tailored risks, mitigation measures and materiality of investments for each portfolio and grant.

For this model to work effectively, Country Teams need to have high and consistent level of maturity in risk management. It also requires systematic and predictable specialist insights by second-line functions. The OIG noted, however, that Country Teams vary in maturity across the risk management cycle, affecting the engagement of LFA services.

In addition, Country Teams could engage some second-line functions and use their technical expertise more proactively to scope the LFA engagement or leverage their findings. Support offered by second-line functions across the risk management cycle can also be made more systematic and consistently effective.

#### Recommendations

- Establish a more “aligned” operating model that enables systematic monitoring of mitigation actions and concrete second-line support to Country Teams, particularly by i) Presenting and sharing information in a format that allows for specialist level, country-team specific advice and oversight on mitigation actions, and ii) Clarifying expectations from second-line functions and further improving the impact of the support and oversight provided<sup>3</sup>
- Enhance and harmonize Country Team capability to initiate and influence risk management processes and to frame and leverage monitoring activities. This should be coupled with stronger incentives for Country Teams and Principal Recipients to implement and monitor Key Management Actions / Agreed Actions
- Foster a cultural shift among the first- and second-lines towards a more integrated approach and enhanced collaboration.

<sup>2</sup> PU refers to a Progress Update. PUDR is a Progress Update and Disbursement Request.

<sup>3</sup> Efforts in this direction are underway, with the LFA Launch project and the development of IRM 2.0.



# Background, Objectives and Scope

## Evolution of LFA Approaches for Country-Level Monitoring

The Grant Management Division (GMD) requested the Office of the Inspector General to conduct an advisory review on the current use of the LFA model to determine opportunities for continuous improvement and maximize the value generated by LFA services. The advisory will provide input into the planning and approaches for the funding cycle starting in 2023.

The **overarching objective** of this advisory is to ensure LFA services are fit-for-purpose, to best contribute to accelerating the impact of Global Fund grants. **Sub-objectives** include:

- Understand how LFAs are currently leveraged by the Secretariat, including strengths and improvement areas
- Identify improvements needed in (i) how the Secretariat shapes the mandate for LFAs; (ii) how LFAs execute their mandate and deliver value-add outputs and (iii) how LFA findings are integrated and used in the grant management and oversight processes
- Develop recommendations to further strengthen the Global Fund's ability to leverage LFA services going forward and help the Secretariat prioritize actions for change

In agreement with the Secretariat, the following areas were not reviewed by this advisory: (i) evolution of LFA contracting mechanisms and (ii) assessment of the budgetary and human resource implications associated with adoption of recommendations.

### Methodology

This advisory leveraged numerous sources of information and insights. The team engaged with a broad spectrum of stakeholders within the Secretariat and externally. Past audits and existing data (e.g., LFA spend, performance data) were also considered.

While this was an advisory sponsored by the Grant Management Division (GMD), the Steering Committee – that met and provided direction at key points of the process – included representatives from the main functional teams involved in framing and leveraging LFA work (finance, supply operations, risk, technical advice and partnerships).

The review developed in two phases. The diagnostic assessment phase aimed at assessing the status quo and developing an initial view on improvement areas. The second phase focused on prioritizing areas of change, identifying concrete actions to address improvement opportunities, and creating a roadmap with recommended actions for implementation.

It was important to safeguard both the strategic focus and nuanced operational context of different portfolios. To achieve the right balance, the assessment combined a “top-down” definition of hypotheses through desk review and interviews with a broad spectrum of stakeholders, with a “bottom-up” analysis including different sources of insights (country deep-dives, analysis of LFA costs and performance data and a survey collecting LFA views).

**FIGURE 1: SUMMARY OF THE DIAGNOSTIC ASSESSMENT PHASE METHODOLOGY**

Interviews	Country deep-dives	Data analysis – LFA costs & performance	LFA survey
<p>≥35 interviews with:</p> <ul style="list-style-type: none"> <li>■ GMD leadership</li> <li>■ Second-line / technical functions</li> <li>■ LFA central teams</li> <li>■ OIG auditors</li> </ul>	<p><b>13 sampled countries</b> (including recent OIG audits):</p> <p>Angola, Cameroon, Cote d'Ivoire, DRC, Indonesia, Kenya, Liberia, Malawi, Mozambique, Nigeria, Pakistan, South Africa and Uganda</p>	<p><b>2018-2020 budget data segmented by:</b></p> <ul style="list-style-type: none"> <li>■ Type of LFA service</li> <li>■ High-impact / Core / Focused portfolio</li> </ul> <p><b>LFA performance data</b> across service areas and countries</p>	<p><b>98</b> LFA teams responded</p> <p><b>82%</b> of countries represented</p>

Findings from the diagnostic assessment phase were presented and discussed with the Steering Committee, as well as socialized with select Country Teams and second-line representatives to prioritize areas of change and identify concrete actions to address improvement opportunities.

Ultimately, the advisory team produced a roadmap of actions summarized in this report, which considered initiatives that were already underway and newly agreed initiatives to optimize the LFA model.



# Understanding the LFA Model

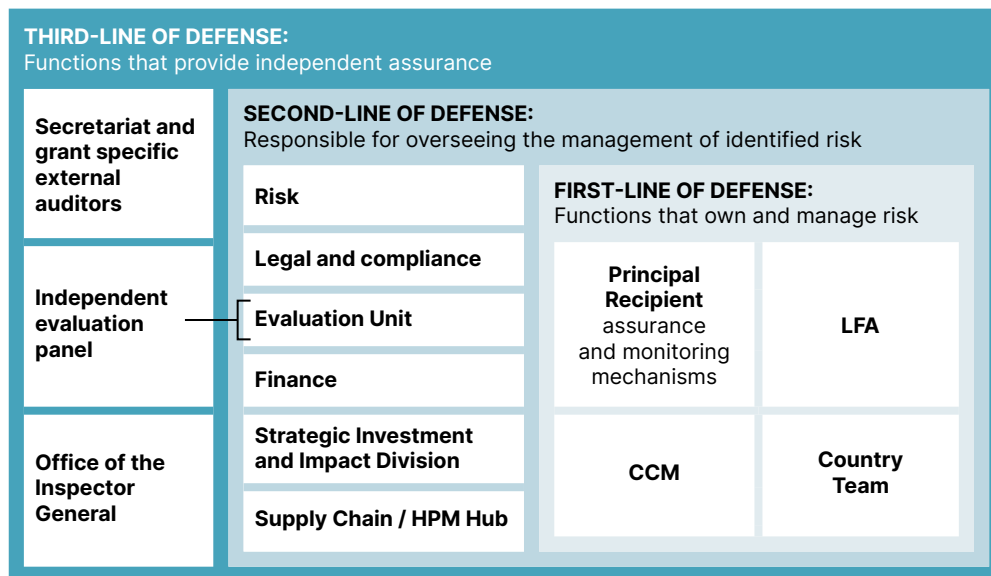
## Evolution of LFA Approaches for Country-Level Monitoring

The Global Fund does not have country offices and relies instead on Principal Recipients (PRs) to implement grants. To assist with oversight and monitoring, independent organizations in each country known as “Local Fund Agents” work closely with the Country Teams at the Global Fund Secretariat to evaluate and monitor activities before, during and after the implementation of a grant.

The Global Fund relies on LFAs to provide independent assessment, verification, advice and recommendations on implementation arrangements and grant performance through the commissioning of recurring and tailored LFA services.<sup>4,5</sup>

LFA services are intended to supplement oversight activities of implementers. The Global Fund relies on LFA work in its decision making but LFAs are not empowered to represent the Global Fund’s views or make decisions regarding grants. LFAs do not participate in the design or implementation of Global Fund programs and are not allowed to provide technical assistance to implementers. LFA reports are confidential and for the Global Fund only, unless otherwise agreed with the LFA.

**FIGURE 2: SIMPLIFIED VIEW OF LFA’S POSITIONING IN THE THREE LINES OF DEFENSE**

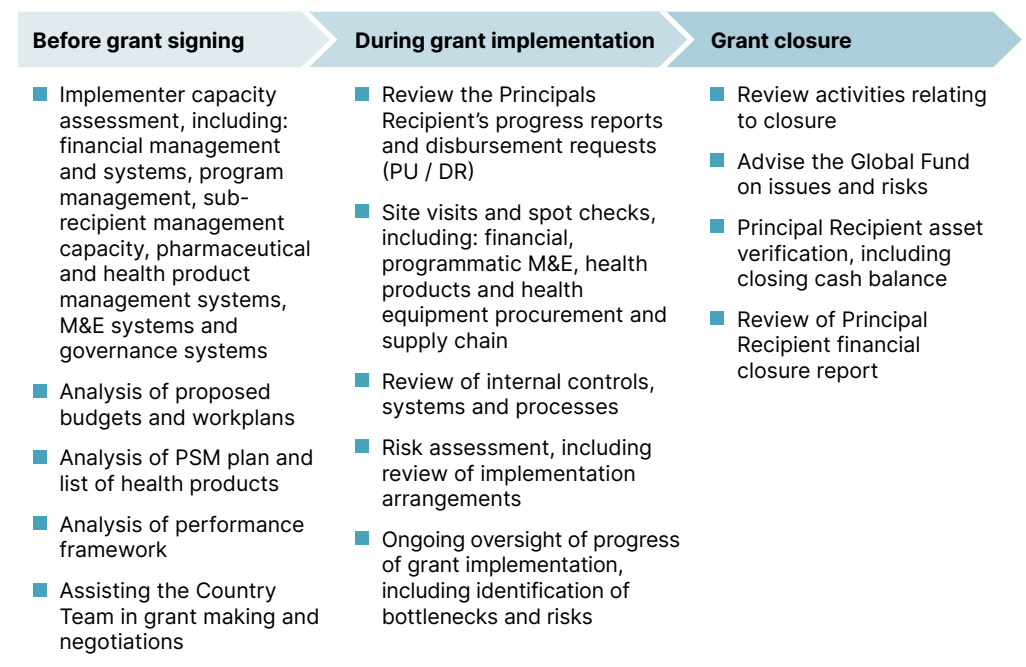


## LFA scope of services and budget

LFA services are provided throughout the grant life cycle, from funding request through grant closure. Some LFA work is recurring, while other tailored services are commissioned based on emerging risks and portfolio needs.

Each of the 139 grant portfolios,<sup>6</sup> some of which comprise multi-country grants, are served by a specific LFA team with experts from several disciplines based on portfolio needs. A typical LFA team consists of a Team Leader, Finance, Programmatic Health / M&E and PSM experts. The Global Fund may request additional experts in other areas as portfolio needs evolve. The Global Fund approves all senior LFA experts based on established minimum requirements for their education and experience.

**FIGURE 3: EXAMPLES OF LFA SERVICES<sup>7</sup>**



4 Adapted from Role of Local Fund Agent in the programs funded by the Global Fund, p 5, updated June 2021.

5 Adapted from ‘Global Fund In-Country Assurance’ audit Global Fund-OIG-17-026, p. 8.

6 List of Local Fund Agents, lfa\_selected\_list\_en.pdf (theglobalfund.org), Updated 12 August 2021.

7 For a more comprehensive list of potential activities, refer to the ‘Risk & Assurance Toolbox’ document (October 2018).

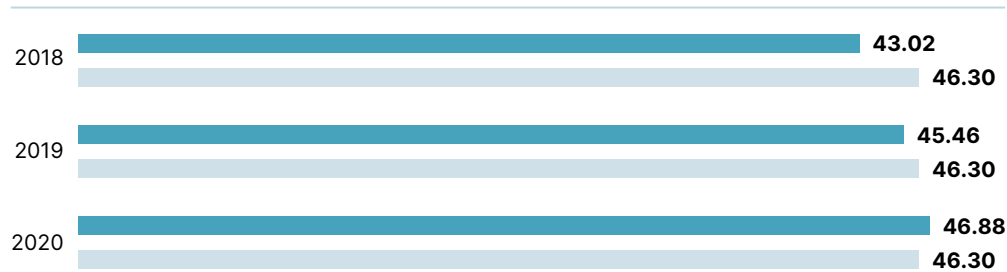


# Understanding the LFA Model

## Evolution of LFA Approaches for Country-Level Monitoring

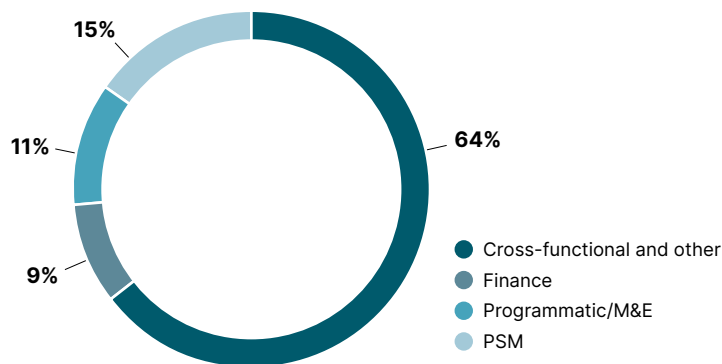
Each country portfolio has a separate annual budget allocated for LFA services. During the period 2018-2020, the overall annual LFA budget was US\$ ~46.3 million.<sup>8</sup> For 2018 and 2019, budget utilization was 93% and 98%, respectively.

**FIGURE 4: LFA BUDGET & ACTUAL FOR 2018-2020 (US\$ Million)**



● Actual For period 2018-2020, 139 million US\$ was budgeted for LFA services, of which 97% was utilized. The first two years the budget was slightly underspent, while COVID-19-related services resulted in an immaterial overspend in 2020.  
 ● Budget

**FIGURE 5: LFA SERVICES AVERAGE ANNUAL EXPENDITURE BY SERVICE TYPE, 2018-2020**



The largest category of LFA investment is the cross-cutting category, which includes activities such as PU & PU/DR reviews, various joint spot checks, grant making related reviews.

PU & PU/DR reviews represent the largest portion of actual expense during the 2018-2020 period.

## Responding to COVID-19

With the onset of the COVID-19 pandemic, LFAs had to adapt their activities and provide new services related to COVID-19 funding, while regularly updating the Global Fund on the COVID-19 situation in-country. COVID-19 related LFA services in 2020 amounted to approximately US\$3.3 million. Overall, the LFA budget was overspent in 2020 by 1%.

As the monitoring and oversight of C19RM funding evolved and further activities were requested to ensure sufficient coverage of C19RM-related activities, an additional C19RM LFA budget of US\$18.6 million was approved by the Investment Committee in June 2021 for the period 2021-2024. From July 2021, LFAs provided US\$6.3 million of services related to C19RM, which were covered by the additional C19RM LFA budget (in addition to US\$3.2 million worth of C19RM LFA monitoring services planned/completed before separate 2021 C19RM LFA country budgets were released, that were recorded in the 2021 regular LFA work plans).

## Secretariat management of LFAs

The Global Fund relationship with LFAs is governed by a Framework Contract signed with each provider.<sup>9</sup> It does not entail a financial commitment or assign countries. A competitive process is run on a country-by-country basis to select the provider for each portfolio.

Country Teams own the responsibility of defining the scope of LFA work, managing their workplan and budget, reviewing findings, and assessing and providing performance feedback.

Country Teams develop annual costed workplans based on programmatic results and operating contexts to reflect service needs based on the residual and emerging risks of the portfolio. These workplans are reviewed by some second-line teams prior to being shared with LFAs. Second-line functions from the Global Fund Secretariat are also consulted further on an ad hoc basis, depending on each team's needs for technical guidance. Workplans can be adjusted during the year as needed.

The performance of each LFA team is evaluated at least annually (for large portfolios twice a year) by the respective Country Team using the Performance Evaluation Tool (PET), and feedback is provided to LFAs.

Among their responsibilities, the Global Fund LFA Coordination Team<sup>10</sup> manages centrally the LFA performance evaluation process, and regularly analyzes, monitors and shares reports on LFA performance with Global Fund leadership.

<sup>8</sup> Approved budget; source: GMD LFA Coordination team.

<sup>9</sup> For up to 6 years initially, with a possibility of automatic extension; flexible termination provisions for Global Fund.

<sup>10</sup> Within the Grant Portfolio Solutions and Support Department (GMD).



## Key Areas of Focus

### Evolution of LFA Approaches for Country-Level Monitoring

**The current approach is fit-for-purpose overall, with some key strengths and improvement opportunities identified.**

The design of the LFA model is fit-for-purpose overall and adds value to Global Fund oversight of country level grants. The LFAs play an important monitoring function through both regular review of progress updates sent by implementers to the Global Fund, and thematic reviews based on various portfolio risks identified. In addition, the LFAs are playing an important role as “eyes and ears” at the country level. Generally, Country Teams trust their LFA partners in-country and rely on them to flag implementation bottlenecks and engage with stakeholders at country level.

A major strength of the current LFA model is its flexibility, which affords dynamic, hands-on and highly contextualized insights and monitoring. Country Teams can direct LFAs based on tailored risks mitigation measures and materiality of investments – scaling activities up or down as needs emerge over the course of the grant cycle.

While the capabilities and performance of LFAs vary, annual performance evaluations show satisfactory ratings from almost all Country Teams across all functional areas: financial & fiduciary, supply chain management, programmatic, monitoring & evaluation. From the assessments completed in 2020, 92% of LFAs met or exceeded expectations.<sup>11</sup> In most cases, LFA teams can deploy the right expertise, with some exceptions. In Focused countries, where the Global Fund requests less LFA services, LFA providers have some challenges in consistently accessing the required experts when requested by the GF, especially on short notice. With fewer occasions to engage with grant implementers, the level of analysis LFAs provide in Focused portfolios is not the same as in High Impact and Core.

The Secretariat puts in place continuous efforts to improve LFA performance through trainings and sharing of performance feedback. The Global Fund LFA Team in the Grants Management Division together with other stakeholders regularly conduct LFA trainings to enhance LFA's knowledge and performance. A standardized process for Country Teams to provide regular feedback to LFAs is also in place to align expectations and help LFAs to improve their performance and deliverables accordingly.

Finally, the interactions between Country Teams and LFAs are highly dynamic, with LFAs proactively recommending proposals for tailored reviews/services based on emerging risks. More than 70% of the LFAs surveyed agree that Country Teams effectively commission tailored services to monitor risk areas.

LFAs also believe that there is a high level of overall alignment between approved LFA workplans and risks and materiality of investments. An analysis of recent country audits mostly corroborates this insight: there is generally good alignment between the Secretariat's and OIG's risk assessment - across seven country audits in 2021, only four out of 33 (12%) risks were assessed at a different level.

While acknowledging the numerous strengths to the current LFA model, the report illustrates the vulnerabilities and continuous improvement opportunities. The emphasis on a handful of key areas is intended to focus and help the Global Fund Secretariat maximize the value it gets from the LFAs, via an even more effective deployment and improved leveraging of the current LFA model.

The diagnostic phase of the advisory highlighted **three key focus areas** for further strengthening of the approach. This advisory recommends the Global Fund Secretariat to:





# Key Areas of Focus

## Evolution of LFA Approaches for Country-Level Monitoring



### 1. Further optimize the use of LFA services in select areas, both in the design and implementation of Global Fund supported programs

The OIG assessment identified opportunities to further improve LFA services in areas considered value-adding and under-used by the Secretariat across relevant portfolios. These areas cover services both at the grant design stage and the monitoring of implementation.

While it is acknowledged that checks and balances on program design are in place and are not in the remit of LFA support, the analysis highlighted that LFAs could have a more proactive and stronger role in assessing the robustness of the project management approach underpinning implementation. Enhanced support to the Country Team during grant design stage and readiness / capacity assessments may highlight risks early on, enabling LFAs to further tailor their activities to needs during implementation.

#### 1.1 Cross-cutting support and monitoring activities

*These topics refer to services that are applicable to all portfolios, regardless of the grant structure.*

#### Insights on some critical aspects of grant design at the grant-making stage provided inconsistently

LFA involvement in grant-making related processes is tailored on a case-by-case basis. Parameters include: country context, risk profile, available funding level, implementer past performance and implementation arrangements.

Deep-dives in sampled countries showed that LFAs are not consistently requested to provide insights on some critical aspects of grant design. This can have important repercussions during grant implementation, that have been identified later by audits and in-country monitoring activities.

Some examples where LFA reviews could have identified emerging risks related to funding requests include:

- Existence and robustness of national strategies to support interventions (e.g., for community health workers)
- Flagging design weaknesses related to the absence of updated epidemiological and population mapping surveys
- Alignment of country-level HIV, TB and malaria guidelines to the latest applicable international guidance

- Assessment of structural gaps in pursuing integration of HIV/TB testing and treatment (e.g., verticality of treatment, “proprietary” use of health equipment)

Some examples where LFA reviews could have identified implementation arrangements-related risks more systematically include:

- Appropriateness of the number and type of sub-recipients involved in programmatic activities from a project management perspective
- Robustness of the project management unit's set-up, mandate and organizational arrangements
- Conduciveness of the selected service delivery modality to specific program objectives

For performance framework related reviews, LFA role has been limited. The OIG's review of sampled countries indicated weak coverage of elements including appropriateness of baselines, data collection and reporting methods, data quality and accuracy measures and availability of disaggregated data.

Country Teams varied in their ability to appropriately leverage and clearly define the scope of LFA services at the grant-making stage. While adequate guidance is available in the LFA manual in respect to the above-mentioned areas, time constraints and ability to prioritize impact the scope and depth of analysis that LFAs perform.

#### Ability to leverage on Global Fund Secretariat tools at grant-making stage, in particular the Capacity Assessment Tool (CAT) and the Implementation Readiness Assessment Tool

The Capacity Assessment Tool (CAT) and Implementation Readiness Assessment Tool (introduced from NFM3 onwards to assess whether grants are implementation ready) exist and are quite comprehensive. The analysis found that such tools could be used more effectively.

CAT is used almost only in cases where it is mandatory as per Global Fund policy (e.g., with new Principal Recipients). But it could be used more extensively with key implementers (including existing and continuing Principal Recipients) as a foundational assessment tool to be followed-up with “deep-dive” tests of the effectiveness of key control areas.

Country Teams seldom proactively involve LFAs in the identification of relevant assessment areas, which would ensure more tailored use of the tool. Sub-Recipient use of CAT is also very limited as this is seen as a responsibility of the Principal Recipient.



# Key Areas of Focus

## Evolution of LFA Approaches for Country-Level Monitoring

Use of the Readiness Assessment Tool could be improved as well, particularly to include an assessment of the challenges Principal Recipient is facing in selecting Sub-Recipients, when selection is delayed, and to check the existence of time-bound plans to conduct baseline / need assessments (e.g., epidemiological and key and vulnerable population surveys).

### **Preliminary assessment of internal control mechanisms not consistently performed**

The country deep-dive analysis showed Country Teams tendency towards default reliance on country-led oversight mechanisms without systematic assessment of their scope and reliability before setting up Global Fund-led monitoring. At times, the realization of existence of clear gaps in in-country mechanisms and their low reliability led Country Teams to revise the previously established overarching monitoring approach during grant implementation to cover emerging oversight risks.

### **Limited leverage on LFAs' risk assessment insights to complement Global Fund's own assessment through direct country experience**

Currently, Country Teams seldom ask LFAs to provide input through a comprehensive risk assessment (which is catalogued as a tailored LFA service). LFAs flag specific risks for the portfolio as part of other broader services (e.g., PUDRs), however this input can be piecemeal and diluted with large amounts of information provided.

At the same time, OIG findings in sampled countries and prior OIG audits showed variability across Country Teams in the quality and comprehensiveness of risk assessments.

Given these circumstances, there is potential value for the Secretariat to involve LFAs more systematically in the annual portfolio and grant risk assessment process. This would not only enhance Country Team risk assessments, but also enable LFAs to roll up their reviews to a more strategic level.

### **1.2 Enabling grant activities**

*These topics refer to risk-based reviews focused on high investment and impact categories.*

### **LFA reviews for key investment areas (e.g., procurement processes, health equipment and trainings) are sometimes retrospective with a narrow scope**

LFA reviews on in-country procurement processes are focused on the tendering process or mostly happen post-award. Therefore, the effectiveness of these procurements is not always assessed (e.g., timely procurement).

Similarly, LFA reviews on GeneXpert machines are mostly retrospective. In some cases, despite the significant amount invested in health equipment, tailored LFA reviews excluded or only peripherally included root cause analysis of key operational issues.

The analysis found that reviews of training activities are also often narrow and retrospective in scope. Project management for training activities are among the reviews that stakeholders identified as particularly value-adding. This involves implementer selection, trainee databases, pre-post knowledge evaluation, training materials and supervision.

The OIG's conclusion is that LFA reviews of key investment areas could be enhanced by broadening the scope of their activities. Specifically, with more on-going monitoring or prospective assessments. This supports the suggestion from surveyed LFAs to re-balance service investment towards ongoing review and forward-looking insights. LFA teams in High Impact countries are particularly keen to see this change.

### **Scope of supply chain (SC) reviews sometimes focused on "static" aspects like on-shelf stock availability, excluding distribution flows and data triangulation**

Current supply chain reviews tend to be siloed (focusing on one or two aspects) or focused on "static" aspects, like on-shelf stock availability.

Previous OIG audit and investigation reports have highlighted critical issues in inventory management at central and lower levels, distribution of commodities and discrepancies in relation to data on stock consumption and number of patients served. More specifically, OIG audits in 2021 noted fragmented in-country supply chains, weak inventory management and ineffective controls.<sup>12</sup>

Interviewed stakeholders and OIG's own reviews signal the opportunity to broaden the focus of commissioned LFA reviews to more dynamic and encompassing issues, including:

- Overall functioning of distribution flows, time delays, bottlenecks across levels, oversight deficiencies and lack of traceability
- Inventory and warehouse management at central level (central medical stores) and intermediary stocking/distribution points (e.g., district); waste management
- Data reasonability review – triangulation of data on supplies received in the facilities, data on stock / consumption and data on patients served.



## Key Areas of Focus

### Evolution of LFA Approaches for Country-Level Monitoring

#### **Unclear positioning of LFA procurement & supply chain management (PSM) reviews and their complementarity with the newly introduced Supply Chain & Health Services Spot Checks**

Since Q4 of 2021 as part of the C19RM framework, quarterly spot checks conducted by selected service providers (not LFA) have become part of monitoring and oversight for Supply Chain & Health Services (SC & HS). During these checks, service providers collect data from sampled health facilities and warehouses in 45 countries. It is meant to provide visibility of in-country supply chain performance, service availability and disruption.

Country Teams in most sampled countries, however, are struggling to differentiate the role of these spot checks from LFA reviews for Procurement and Supply Chain Management (PSM), not fully capturing the intended complementarity between the two mechanisms.

Centralized spot checks are meant as corporate-wide harmonized “data collection” exercises to capture country-level issues. It facilitates landscaping and second-line support to Country Teams. LFA supply chain spot-checks, instead, are targeted verification exercises to provide insights based on portfolio- and grant-specific issues.

Country Teams and LFAs would benefit from clearer communication about these objectives and how they work together. Otherwise, the Global Fund risks an un-intentional “substitution” effect, with Country Teams potentially deprioritizing some relevant in-country reviews assuming that monitoring of those risks is covered by centralized reviews.

In addition, there is an opportunity to fine-tune the synergies between the two monitoring efforts, leveraging the outcome of the centralized spot-checks as an additional input to the Country Teams- second-line (Supply Operations) discussions around need for tailored monitoring services by portfolio, performed by LFAs.

#### **1.3 Programmatic thematic clusters**

*These topics refer to specific programmatic themes, making them relevant only to a share of the Global Fund's portfolios.*

While LFAs already provide monitoring services in programmatic areas, work is undergoing to refine quality assurance standards in this area.

The Secretariat (TAP) is currently defining high-level “Program Essentials” for programmatic themes<sup>13</sup>, including guidelines for quality assurance. This would be the conceptual basis to determine the scope of relevant and comprehensive programmatic reviews to assign to LFAs or other providers.

In addition, OIG noted some areas where LFA services could be further strengthened and utilized specific to thematic clusters. Some examples include community engagement across the three diseases, integration of HIV/TB services, and aspects of HIV prevention, particularly for key populations.

13 And “Critical approaches” for RSSH.



# Key Areas of Focus

## Evolution of LFA Approaches for Country-Level Monitoring

### Recommendations

Over the course of the advisory, OIG formulated initial recommendations for business owners to further refine and prioritize. Recommendations are differentiated by portfolio type and theme, with some building on ongoing efforts.

#### High Impact and Core – Cross-cutting support and enabling grant activities

The following areas are recommended for further strengthening:

##### Cross-cutting support

- Provide more in-depth feedback at the grant-making stage
- Improve the ability to leverage Secretariat tools at the grant making stage, particularly the Capacity Assessment Tool and the Implementation Readiness Assessment tool
- Strengthen the preliminary assessment of internal controls mechanisms (existence, maturity and independence)
- Increase use of LFA risk assessment insights to enhance the robustness of the Global Fund's own assessments

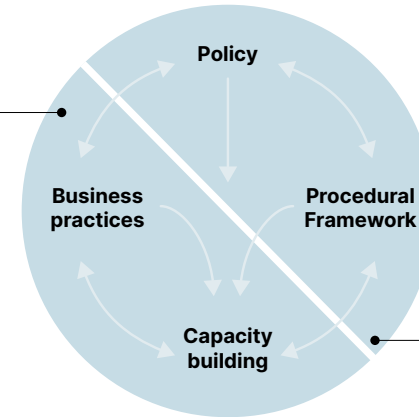
##### Enabling grant activities

- Adopt a more holistic and pre-emptive approach to LFA reviews for key investment areas, focusing on impact
- Broaden the scope of supply chain reviews to include distribution flows and data triangulation
- Clarify the role of LFA Procurement and Supply Management (PSM) reviews and optimize their complementarity with the newly introduced spot-checks

To further optimize LFA services in the areas above, different levers can be considered to be selectively applied to the areas identified, from improving business practices and building capacity to more 'codified' changes to procedural frameworks and policies.

#### Decentralized / Un-codified

- Train Country Teams and LFAs
- Share best practices across the Secretariat
- Support and/or oversight from second-line functions



#### GF corporate / Codified

- Identification of thresholds or criteria to harmonize the use of LFA reviews across Country Teams
- Edits to the LFA manual, operational policies and guidelines
- New or modified Terms of Reference (ToRs)

#### High Impact and Core – Programmatic thematic clusters

Apply the "Program Essentials" for programmatic themes<sup>14</sup>, including guidelines for quality assurance, as the conceptual basis for comprehensive programmatic reviews to assign LFAs or other providers. For the topics that will be considered adapt for LFA support, consider:

- Developing Terms of Reference (ToRs) for comprehensive programmatic reviews tailored to specific modules and themes, based on relevant aspects of the Program Essentials
- Reviewing the content of existing ToRs for LFA spot-checks to ensure on-site verifications are aligned with Program Essentials
- Creating ToRs for spot-checks in any other relevant thematic areas

In addition to the content, the cadence of reviews could be revised.

#### Focused portfolios

Global Fund support to focused portfolios follows a different model that the Secretariat is currently reviewing for optimization. Once complete, adjustments to the level and focus of monitoring requested to LFAs should be made accordingly.

The **Grant Management Division** (GMD) has agreed to implement the change recommended in this advisory with input from technical specialists and second-line functions, in particular from TAP on the programmatic thematic clusters.

14 And "Critical approaches" for RSSH.



# Key Areas of Focus

## Evolution of LFA Approaches for Country-Level Monitoring



### 2. Streamline the approach to LFA's financial monitoring by leveraging the work of other providers in line with risk appetite

LFA reviews in the area of financial verification are quite standardized and consistently implemented across the Global Fund portfolio where needed. These reviews include grant budget review, expenditure verification as part of PU/PUDRs, review of independence and effectiveness of internal audit function, financial spot-checks, review of funds flow adequacy, financial closure reports, fixed assets verifications, etc.

The financial and fiduciary risk area was recognized in the assessment as being appropriately covered through LFA services. More than 80% of respondents<sup>15</sup> to the LFA survey consider the coverage of financial and fiduciary risks as “fully” or “rather appropriate”. However, the OIG's review identified some areas that could benefit from increased focus and investment, such as robustness of internal controls and Value for Money reviews.

Currently, LFAs are often requested to use a very granular “line by line” verification approach (regardless of materiality). In particular during the PU/PUDR<sup>16</sup> reviews that represent ~26% of LFA spend. But this may not offer the best value to the Global Fund.

The existing procedural framework already fosters a differentiated methodology (i.e., based on portfolio categorization, assessed level of risk, disease burden, materiality, grant context, and available Global Fund resources). But the analysis highlighted a tendency for the Global Fund to request LFAs to maintain a highly granular approach across the whole spectrum of expenditures, regardless of materiality and without applying a tailored approach.

These resource intensive activities may distract LFAs from identifying or addressing higher risk issues. OIG findings, supported by stakeholder feedback, suggest that their activities could be more selective while maintaining an adequate level of monitoring.

“We’re making too much effort at the transaction level to find a few dollars’ worth of discrepancies, while **not paying enough attention to robustness of key controls**. We should strengthen the ‘upstream’ verification so we can be more selective and risk-based.”

– comment recorded during a workshop with LFA teams

Finally, in the current operating model, different actors provide monitoring activities at the country level. Their roles could be further clarified, for example, referring to the complementarity and interplay between the role of Fiscal Agents (FA), External Auditors (EA), PR's auditors and LFAs, where there is considerable overlap.

For example, in countries where a fiscal agent is in place, they validate all expenses. LFAs then check these same expenses again in the PU/DR. In another example, LFAs and external auditors perform similar and overlapping reviews during inventory checks. It has to be noted that multiple overlapping checks do not necessarily guarantee a stronger level of verification: OIG investigations sometimes identify instances where all three providers have failed to identify fraudulent or non-compliant transactions.

<sup>15</sup> 98 LFA teams responded to the survey.

<sup>16</sup> **PU** refers to a Progress Update. **PUDR** is a Progress Update and Disbursement Request.



### Recommendations

These recommendations are designed to enhance the strength and value provided by LFAs in their financial reviews.

#### **Enhance and ensure consistent application of a “risk and control” based approach to financial verifications, with periodic assessments of key controls and the control environment leading to a tailored financial review**

The proposed verification approach is a layered, two-step approach.

First, periodically assesses the effectiveness of the key internal controls. These are controls not only related to the accounting cycle (e.g., procurement-to-pay process, fixed asset management, HR expenses), but also encompassing broad key business processes. Effectiveness should be assessed both from a design (relevance, comprehensiveness) and implementation perspective.

Second, tailor the approach and scope of substantive, transactional level verifications to the level of residual risk emerging from the assessment of controls (effectiveness, ‘gap’ areas), as well as to the materiality of a certain expense area.

Realizing this approach requires a step-change in the way Country Teams plan for and deploy oversight activities. Internal control assessments will need to logically and chronologically lead the scoping of transactional monitoring activities. It will also require a review of the guidance to Global Fund Finance Specialists on how to shape workplans and support their consistent application.

The benefit of this approach is likely its effectiveness, rather than efficiency. This is because the avoided work and costs achievable at a transactional level will likely be (more than) compensated by the effort required for systematic assessments of control robustness. It is expected to be a sustainable approach since it encourages controls on the system.

#### **Ensure consistent implementation of existing guidelines on a “differentiated approach” to financial verifications based on risk and investment**

The Global Fund has established a procedural framework with a differentiated approach to financial verifications. By applying this framework consistently, Country Teams and LFAs can avoid the granular approach that distracts them from attending to higher risk issues.

#### **Strengthen the synergies and complementarity between country-led and Global Fund- sponsored monitoring, performed by various service providers**

In particular, further fine-tune the interplay and role integration between Fiscal Agent, External Auditor, PR’s internal auditors and LFA.

This work is underway. The Finance Department plans to review the overall division of labor among oversight actors. The objective is to streamline and integrate the work of different entities. Work has already begun in the department to find ways to strengthen the ability of the Global Fund Secretariat to comprehensively and effectively assess the performance of Fiscal Agents as well as enhance the External Auditors’ model.

The **Finance Division** has agreed to lead on this area, in close collaboration with GMD and the Risk Department.



# Key Areas of Focus

## Evolution of LFA Approaches for Country-Level Monitoring



### 3. Strengthen and harmonize the maturity of Country Teams in risk management and further clarify the role of second-line functions to better leverage LFA services

Flexibility is one of the main features and advantages of the current LFA model. Country Teams can direct LFAs as needed based on tailored risks, mitigation measures and materiality of investments for each portfolio and grant.

For this flexible model to work, Country Teams need high and consistent maturity in risk management. This involves the ability to identify relevant oversight and monitoring measures based on the level of residual risks and the assessed coverage and effectiveness of existing controls and mitigation measures. It also requires the ability to leverage LFA findings and recommendations to issue impactful Key Mitigating Actions (KMAs) / Agreed Actions (AAs) and to systematically follow-up on their timely and effective implementation.

Systematic and predictable specialist-level insights from second-line functions are also essential to this model. Second-line input and advice to Country Teams allow for meaningful planning and framing of LFA work, providing the technical expertise and a cross-portfolio perspective. Their oversight on how effectively Country Teams leverage findings and recommendations from LFAs and other providers on major risks ensures that the Secretariat maintains a comprehensive and effective mitigation and monitoring approach.

Having this foundation in place ensures that monitoring activities are comprehensively planned based on residual risks, materiality and control coverage (rather than with an incremental, reactive approach). It also allows for monitoring activities to be deployed across the implementation period in the most meaningful way, aligned with the evolution of grant activities and risk exposure. Finally, it ensures the timeliness and effectiveness of mitigation and managerial actions are robustly monitored and implementation issues get properly escalated.

Recognizing its importance, the Secretariat continuously works to ensure and enhance this foundation. Through its research, the OIG has identified several opportunities to support this continuous improvement.

17 GF-OIG-22-005, March 2022.

18 GF-OIG-22-006, March 2022.

19 Audit of Global Fund Internal Financial Controls, OIG, March 2021.

### 3.1 Strengthen and harmonize Country Teams maturity in risk management

Prior OIG audits and this advisory have shown variability in the level of Country Team maturity across the risk management cycle, including comprehensive risk assessment, set-up of most appropriate monitoring activities and effective leveraging of LFA findings and recommendations. As one Fund Portfolio Manager attested below, this variability impacts the quality of the service that Country Teams receive.

*“We need to become better clients to get more from LFAs. Their service is only as good as the way we use it.”*

*– Fund Portfolio Manager*

OIG has identified several areas where this variability is seen and improvements could be made.

- **Risk mitigation:** KMAs are not always implemented or followed up effectively. As per Q2 2021 reporting against the Performance & Accountability Framework, only 34% (vs 75% target) of KMAs related to all risks were completed. This is due to a variety of factors such as missing root causes and lack of prioritization in KMAs, generic mitigation actions, system limitations (alerts and escalations) and a lack of regular monitoring. For example, the 2022 Kenya audit<sup>17</sup> found that out of 13 mitigation measures presented by the Country Team to the Executive Portfolio Performance Committee in response to increased risk level in March 2021, only 6 have been implemented. Similarly, the Mozambique audit<sup>18</sup> states that “... there is limited follow-up on risks identified by assurance providers. The lack of traceability of Global Fund commodities due to inaccurate batch monitoring at the central medical store has been flagged in several Secretariat-commissioned reviews, but has never been followed up or addressed. All five key Ministry of Health mitigation actions due in 2021 were delayed.”
- **Oversight and monitoring:** Integrated Risk Management (IRM) entries show a variable level in quality, comprehensiveness and timeliness. Country Teams sometimes set-up the scope of in-country monitoring without a systematic assessment of residual risk and of the reliability of country-led monitoring activities; some monitoring activities could be better tailored to assess the effectiveness (rather than simple completion) of mitigation actions.
- **Reporting:** The OIG’s Audit of Internal Financial Controls<sup>19</sup> noted that critical issues flagged by service providers were not included in IRM entries, even when they were repeatedly flagged. LFA recommendations are not always effectively translated into managerial actions and there are sometimes long lead times from an LFA recommendation to a Country Team managerial action for a Principal Recipient.



## Key Areas of Focus

### Evolution of LFA Approaches for Country-Level Monitoring

#### 3.2 Further clarify the support expected by each of the second-line functions

The analysis noted that technical support offered by second-line functions across the risk management cycle could be more systematic and consistently effective. OIG found that Country Teams could more proactively and systematically reach out to some of the second-line functions to scope LFA engagements or leverage their findings.

The extent and effectiveness of support appears to be partly linked to the organizational set-up of the second-line function (e.g., the ability to provide relevant support to a specific country context). Two elements could better enable the contribution by second-line functions.

#### **A conducive information platform that allows second-line functions to provide specialist level, Country Team specific advice and oversight on risk mitigation and monitoring.**

LFAs produce a large amount of detailed grant and Principal Recipient-related information. This is not all systematically stored in central repositories or organized in ways that allow the second-line to efficiently access information. (There are some exceptions, such as with PU / DRs).

#### **Realistic service delivery expectations based on second-line resources and embedded into risk management and oversight processes.**

The Operational Policy on Risk Management defines the role of technical second-line functions as “global business owners responsible for providing operational and technical guidance regarding risk identification and prioritization, best practices for mitigants based on country context, and assurance planning options and follow-up actions.”

It contextualizes the action of the second-line functions within the risk management systems and tools, in particular as members of the Portfolio Performance Committee, which regularly conducts Country Portfolio Reviews to ensure correct prioritization of risks and appropriate mitigation actions.

Moreover, the operational guidance to the Country Risk Management Memorandum (CRMM), a memo generated each year<sup>20</sup> to give senior management visibility of grant risks, mitigations and tradeoffs<sup>21</sup>, requires Country Teams to draft the CRMM in consultation with risk specialists and technical second-line teams. It also demands for a “no-objection” basis approval of the CRMM by the heads of all second-line functions.

However, the OIG found<sup>22</sup> that these actions are not always implemented effectively. Technical support is perceived as variable across teams, also depending on the operating model of each function; in some cases, support is granted mostly on ad-hoc basis, e.g., when Country Teams reach out for advice.

20 For High Impact and Core portfolios.

21 CRMMs are included in the Country Portfolio Review presentation materials, or it is reviewed and approved by the Head of Grant Management and the Chief Risk Officer.

22 From OIG's observations during Country Portfolio Reviews / Portfolio Performance Committees and perceptions shared by CTs in the context of this advisory.

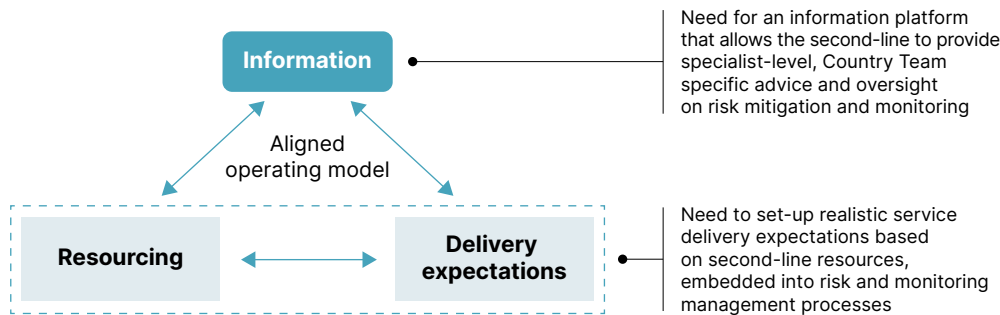




### Recommendations

Three main enablers have been identified that could support the Secretariat to improve the quality and consistency of business practices.

#### Set-up of a more conducive or “aligned” operating model that enables systematic monitoring of mitigation actions and concrete second-line support to Country Teams



#### Present and share information in a format that better enables the second-line to provide specialist level, Country Team-specific advice and oversight on mitigation actions and ongoing monitoring

This requires not only a common and conducive IT platform but also improvements in the way Country Teams and LFAs manage, summarize and present information about evidence collected, findings and managerial actions.

The Secretariat has already started work in this direction. For C19RM, the Global Fund started producing summaries of C19RM findings from LFAs. One of the main components of the “LFA launch” initiative led by GMD is to increase the visibility of LFA findings and reports across the Secretariat.

In parallel, the Risk Department is currently developing a more user-friendly, integrated IRM 2.0 with enhanced analytics and reporting functionalities, and with the objective to better align the “monitoring activities” identified in the IRM process with LFA workplans.

The Secretariat could consider further efforts to support a more clustered view of both the findings from LFA reviews and the whole set of “open” KMAs / AAs issued.

Some examples are described below:

- Country Teams and LFAs could combine efforts to better prioritize, cluster and reference LFA recommendations and Country Team KMAs / AAs
- Further discussions can be held on how (format, tool, owner) to meaningfully consolidate and produce a “longitudinal” view of a given risk area, i.e., overview of the development of a technical issue over time

All these improvements would not only enable better input from the second-line, but also facilitate systematic monitoring and strengthen visibility on priority improvements for Principal Recipients.

#### Clarify expectations from second-line functions and further improve the impact of the support and oversight provided

The Secretariat is currently developing an IRM 2.0 system to drive clear accountability and responsibility between the first- and second-lines of defense and strengthen the second-line involvement. For instance, it should enhance collaboration between Country Teams and Business Risk Owners (BROs) reviewing and advising on residual risks, mitigating actions and planned oversight activities at the funding request and grant-making stage.

The “co-owned” model proposed for IRM 2.0 appears in line with the current Operational Policy principles and aimed at strengthening and aligning business practices. For example, by ensuring systematic interaction between Country Teams and BROs and predictable and systematic specialist support by central technical functions.

To successfully operationalize IRM 2.0, however, the Secretariat needs to clarify expectations. Specifically regarding expectations on the level and quality of advice and oversight provided by the second-line, as well as the value-adding insights provided to Country Teams (e.g., in terms of best practices, analyses at regional or cross-portfolio level, aggregated analyses of lessons learned from the past, etc.).



### Recommendations

#### **Increase and harmonize risk management capabilities for Country Teams to frame and leverage monitoring activities, coupled with stronger incentives to increase focus of Country Teams and Principal Recipients on KMAs / AAs**

Given the high level of autonomy of Country Teams to frame and leverage LFAs, the Secretariat could more significantly invest in proactively harmonizing capacity across country portfolios and strengthen business practices.

This could be done with structured training for Country Teams and proactive showcasing of good practices. Structured training could be provided on risk management overall, as well as on how to most effectively leverage LFA support. OIG suggests focusing on specific service areas, particularly the ones outlined in this advisory and discussed with GMD.

A change in the incentives could be considered to effectively strengthen the attention of Country Teams and Principal Recipients on the timely and comprehensive implementation of KMAs and AAs. For instance, indicators could be added to the performance assessment of Country Teams and their line managers as well as Principal Recipient ratings. Such changes should be carefully considered in terms of operational feasibility and acceptability.

#### **Foster a cultural shift among the first- and second-lines towards a more integrated approach and enhanced collaboration**

A cultural shift is needed that enables better understanding of the second-line's role, value and limitations. This would include greater shared accountability for risks in areas of respective technical competence for second-line functions. It would also require more willingness to adapt support to meet the needs of the first-line.

The areas of work above will be taken forward by different Divisions, mostly **GMD and Risk**, with input from other technical functions as needed.